

Message Text

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ACTION AF-06

INFO OCT-01 EUR-12 ISO-00 AGR-05 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-02 DODE-00 PA-01 PRS-01

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R 251024Z JUL 75

FM AMEMBASSY ACCRA

TO SECSTATE WASHDC 8473

INFO AMEMBASSY ABIDJAN

AMEMBASSY ADDIS ABABA

AMEMBASSY COTONOU

AMEMBASSY DAKAR

AMEMBASSY FREETOWN

AMEMBASSY KINSHASA

AMEMBASSY LAGOS

AMEMBASSY LOME

AMEMBASSY LONDON

AMEMBASSY MONROVIA

AMEMBASSY NAIROBI

AMEMBASSY NIAMEY

AMEMBASSY OUGADOUGOU

AMEMBASSY PARIS

C O N F I D E N T I A L ACCRA 4774

LAGOS ALSO FOR AGATT

E. O. 11652: GDS

TAGS: EALR ECON GH

SUBJ: GHANA'S FY 75-76 BUDGET - COMMENTS

REF: ACCRA 4773

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1. SUMMARY. NEW BUDGET HITS WIDE SECTOR OF GHANAIAAN PUBLIC,

AND REACTION HAS BEEN UNFAVORABLE. ATTEMPT TO CONTAIN INFLATION IS NECESSARY, AND MAY AT LEAST KEEP PRESENT HIGH RATE FROM GETTING WORSE. THERE IS QUESTION WHETHER ECONOMY CAN ABSORB LARGE CAPITAL INPUT PLANNED OR THAT SUFFICIENT FOREIGN EXCHANGE WILL BE AVAILABLE. AS USUAL, CARRYING OUT INTENT CALLS FOR DISCIPLINE WHICH MAY BE LACKING. PRESSURES TO MODIFY BUDGET EXIST, THOUGH QUESTIONABLE WHETHER WILL BE EFFECTIVE. END SUMMARY.

2. THE FIRST THING THAT STRICKES ONE ABOUT GOG FY 75-76 BUDGET (REFTEL) IS THAT IT HITS EVERY GHANAIA IN THE POCKET-BOOK: BEER PRICES UP SHARPLY, SUBSIDY WITHDRAWN ON PETROLEUM PRODUCTS WITH RESULTANT SHARP TRANSPORT COST INCREASES, STANDARD ASSESSMENTS FOR WIDE RANGE OF SELF-EMPLOYED (INCLUDING THOSE FAIRLY LOW ON TOTEM POLE) UP SHARPLY, BOTH INDIVIDUAL AND CORPORATE INCOME TAXES UP. THE GOG CALL FOR SACRIFICE WHICH WENT WITH THE BUDGET HAS NOT BEEN WELL RECEIVED, AND THERE IS CONSIDERABLE GRUMBLING AT ALL LEVELS.

3. GOG ADMITS TO NEAR 20 PERCENT ANNUAL INFLATION RATE, AND ACTUAL IS PROBABLY NEARER 30, SAME ORDER OF MAGNITUDE AS BUDGET INCREASES. BY CALLING FOR SHARP TAX INCREASES AND STRIVING TO KEEP CURRENT EXPENDITURE BUDGET IN BALANCE, GOG HAS PROBABLY MANAGED AT LEAST TO KEEP INFLATION FROM GETTING EVEN WORSE, AND MAY MANAGE TO MAKE RATE DROP IF -- AND THAT IS A BIG IF -- IT SUCCEEDS IN IMPROVING COLLECTIONS AND SHOWING OTHER ANNOUNCED, NECESSARY DISCIPLINE. RAISING INTEREST RATES WILL MAKE SOME ADDITIONAL CAPITAL AVAILABLE, BUT IT QUESTIONABLE WHETHER ENOUGH TO SEEL BONDS TO PUBLIC TO COVER MOST OF DEVELOPMENT BUDGET, AS PLANNED, AS WELL AS TO SHAKE LOOSE THE CAPITAL NEEDED TO ALLOW GHANAIA NS TO BUY SHARES FROM FOREIGNERS UNDER RECENT INVESTMENT POLICY DECREE (ACCRA 2782).

4. IT STILL UNCLEAR WHAT NET EFFECT OF REMOVING 55 PERCENT DIVIDEND TAX BUT PLACING DIVIDENDS IN TAXABLE INCOME WILL BE.

5. WE WONDER WHETHER THE ECONOMY WILL BE ABLE TO ABSORB THE LARGE PLANNED INCREASE IN CAPITAL INVESTMENT (THOUGH IN REAL TERMS THE RISE IS NOT NEARLY AS GREAT AS THE CEDI FIGURES
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WOULD INDICATE, DISCOUNTING FOR INFLATION), ESPECIALLY THE VERY LARGE ONE IN THE AGRICULTURAL SECTOR. TYPICALLY IN PAST DEVELOPMENT (CAPITAL) BUDGET EXPENDITURES FELL SHORT OF PROJECTIONS. GREAT PROBABILITY OF THIS REPEATING IN CURRENT FY DUE TO SEVERE FOREIGN EXCHANGE CONSTRAINT.

6. WE HAVE PICKED UP RUMORS THAT BUDGET WILL BE REVISED AS RESULT OF SEVERE CRITICISMS BEING LEVELLED AGAINST ITS

AUSTERE NATURE. ON BALANCE, WE BELIEVE THAT THERE WILL BE
COMPLAINTS AND, OF COURSE, EXTENSIVE EFFORTS TO CIRCUMVENT
TAXATION, BUT THAT GOVERNMENT WILL BE CAPABLE OF HANDLING
SITUATION.
BLACK

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